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SUBJECT: CHINA BRACING FOR DECLINING EMPLOYMENT IN EXPORT SECTOR

¶1. (SBU) SUMMARY: China's Ministry of Human Resources and Social Security (MOHRSS) has announced that China does not yet face a "wave of layoffs" as a result of the global financial crisis, but that a "grim employment situation" could develop in 2009. Labor Economist Wang Dewen told Laboff that MOHRSS may be preparing the public for a notable rise in unemployment and said the government is responding quickly and responsibly to the threat.

Given the Chinese economy's dependence on exports, Wang said the degree of job loss will depend on the length and depth of economic recession in China's export markets. While China may face a near-term rise in unemployment, Wang believes Chinese demographics will ultimately lead to a relative labor shortage, which will further erode the competitiveness of China's labor-intensive export industries. END SUMMARY.

¶2. (U) The Chinese and foreign press have recently been rife with anecdotal reports of closing factories and lay offs. To address this issue, the Chinese Ministry of Human Resources and Social Security (MOHRSS) just concluded a month-long 11 province survey of employment conditions, and stated that there has been a minor, recent increase in unemployment. While MOHRSS announced that there is no "wave of layoffs" it did warn that a "grim employment situation" may develop over the next few months. MOHRSS has not publicized detailed findings from its survey, and existing unemployment statistics do not capture the migrant workers in the export-sector who would be most affected by the downturn. For more perspective on impact of the global financial crisis on Chinese employment, Laboff met with Professor Wang Dewen at the China Institute of Social Science's Institute of Population and Labor Economics on November 24.

¶3. (SBU) Wang said his Institute recently conducted some small scale employment surveys of its own and found a large number of factory closings (up to 20 percent of employers in some export-intensive regions) and a larger than usual end of year decline in manufacturing employment. (Note: Wang did not provide information on the number of factory openings, the relative scale of the closed factories, or compare the number of closings this year to previous years. End note.) He said it was impossible to extrapolate an unemployment rate from such an unscientific study, but that he believed estimates from the governments of some migrant worker-sending provinces, which reported that 4-5% of migrant workers have returned home in the fourth quarter of 2008, understate the degree of job loss. He noted that a CASS household survey of export-manufacturing regions in healthy economic times (2005) found an unemployment rate of 5-6% percent. Wang told Laboff that he believes MOHRSS, as a result of its recent survey, has a much clearer picture of rising unemployment than it has made public, and that the Ministry is getting the public used to the idea through its warnings about the coming months.

¶4. (SBU) Wang said the government is acting quickly and responsibly to deal with the threat of rising unemployment. MOHRSS has announced a number of measures at the central and local government level to maintain stability in employment. These include measures to keep export-oriented manufacturers in business,

such as reinstating certain tax rebates, suspending planned increases in minimum wages, and providing subsidies to offset employers' social insurance contributions for workers. Some provincial labor departments have also issued new regulations, requiring employers to notify the government in advance of planned lay-offs, and have hinted at allowing employers to lower wages rather than let workers go. Government measures aimed directly at the labor force include job placement, vocational training and small loans to migrant workers in their home provinces, and public investment to stimulate economic activity and promote consumption.

However, Wang believes these measures could take several years to have a meaningful impact. China's economy is highly dependent on exports, he said, and whether or not China can forestall serious job loss will depend on the length and depth of recession in China's export markets.

15. (SBU) Wang noted that factory closings in China's coastal exporting regions actually began well before the financial crisis, primarily because of the appreciation of the Chinese currency and rising energy costs. However, Wang said employers report a notable drop in orders from international buyers following the financial crisis, and this has accelerated the decline. Wang does not believe that now-falling energy prices will be enough to reverse the trend. Wang said China needs to restructure its economy to increase consumption and reduce dependence on exports. While the financial crisis may bring about a near-term increase in unemployment, Wang said he believes that demographic changes will inevitably result in labor shortages, which will erode the export competitiveness of China's labor-intensive industries further.

16. (U) Embassy has requested a meeting with MOHRSS experts to discuss current trends in unemployment and the findings of the 11 province survey.

RANDT